SQUIRE PATTON BOGGS

#PensionsTensions

Exploring the Long-term Stresses and Strains on UK Pension Saving Following the COVID-19 Pandemic

#How2DoPensions

Part 1: The Member Experience

#PensionsTensions Overview

The global coronavirus pandemic has had a seismic impact on our economy and lifestyles. Whilst some of the challenges posed by COVID-19 are expected to be short-lived, the longer-term implications of the crisis remain unclear. The slower pace of life during lockdown has given many people an opportunity for reflection, and it is likely there will be some permanent changes to how individuals live, work and save for retirement, as well as new and ongoing challenges and opportunities facing pension scheme sponsoring employers and trustees. In this series of publications we examine the key areas of pension tension, in each case exploring four aspects, assigning them a #PressureMeasure (the higher the score the greater the pressure being faced) and giving our view on where further reflection might lead to welcome change.

Engagement – How Much Attention Do Individuals Pay to Pension Saving?

#PressureMeasure: 8/10

The advent of automatic enrolment in 2012 has led to a huge increase in the number of people actively making pensions savings. Much of this may be the result of inertia of newly enrolled members, but our view is that the government and pensions industry should look to build on this momentum by generating increased saver engagement, as this is key to good retirement outcomes.

Household incomes have undoubtedly been squeezed during the pandemic, but equally the lockdown has enabled some people to save more by reducing their spending on transport and non-essential items.

These people may wish to maintain good savings habits post-lockdown, but may not be fully aware of the possible advantages of doing so via pension contributions.

Harnessing online technologies and new media (on which people have placed greater reliance during lockdown) may be one route to greater levels of engagement, particularly amongst younger people, who often struggle to relate to retirement savings but who are used to having "real time" information on cash balances at their fingertips. The pensions dashboard will play a pivotal role in giving members greater visibility on their pensions. It is crucial that this system, once it goes live, is a success, as engagement levels will wane if the information on the dashboard is unreliable or incomplete.

Integration – How Well Does Pension Saving Fit With Other Financial Commitments?

#PressureMeasure: 6/10

The tension between saving for retirement and meeting immediate financial needs is a major barrier to retirement savings for many of us. The savings landscape is complicated, with varying tax rules and restrictions on different products. The state pension, an important element of many people's retirement savings, is opaque and inflexible.

In principle, individuals' goals are straightforward: they need to ensure they have enough money to pay their living costs both during their working life and in retirement.

But these goals are often viewed in isolation, with short-termism often driving financial decisions. Younger workers understandably tend to prioritise housing costs over pensions, with other potential costs such as social care fees even further down the list. There remains plenty of scope for people to save not necessarily more, but "smarter", so that they can have increased control over their savings, and more effectively prioritise different lifestyle goals with suitable education and support.

Flexibility – How Much Choice Is There Within the Pensions Market?

#PressureMeasure: 2/10

The government heralded greater flexibility in how to use pension savings when the "freedom and choice" reforms were introduced to defined contribution (DC) arrangements in 2015.

These reforms were criticised by some as offering too much flexibility, with the risk of people underestimating how long they would live – as well as possibly falling prey to scammers.

Meanwhile, there is perhaps not enough flexibility for pension scheme members before they retire. At present, members are either in the scheme – paying at least the minimum level of contributions – or they withdraw.

Pensions savings cannot usually be accessed before age 55 even in an emergency. Sponsoring employers of defined benefit (DB) schemes have the option to suspend payment of contributions for a period during the pandemic, with The Pensions Regulator's regulatory relaxation.

If members of money purchase schemes were offered a similar leeway to take a contribution holiday for a set period during a time of financial hardship – rather than opting out – would this making pension saving more appealing and help members feel more in control of their savings?

Adequacy – Are People Saving Enough for Retirement?

#PressureMeasure: 7/10

With some over-55s facing an unexpected early retirement, and young people contending with a bleak jobs market, the pandemic has highlighted the general importance of savings.

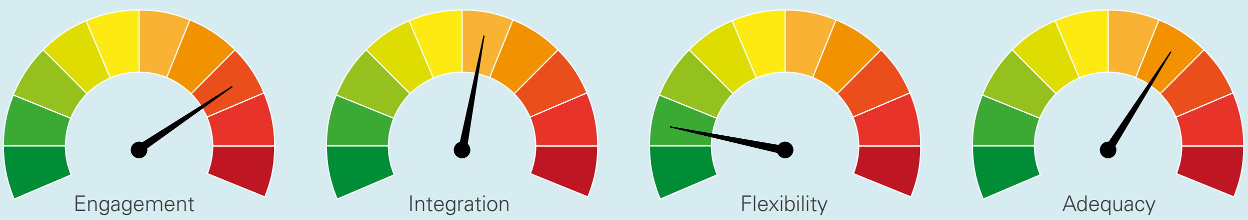
In 2017, the government announced plans to increase pension savings by reducing the automatic enrolment age from 22 to 18 and removing the lower earnings limit. These changes were planned for the mid-2020s but may be affected by the current economic downturn. Such measures, as and when the economy is able to support them, will undoubtedly help with savings adequacy as well as introducing a pension savings culture to a new cohort. In the meantime, perhaps it is time to build on the success of inertia by phasing in increases to member DC contributions, based on age or salary levels?

Meanwhile, the conundrum of how to bring the self-employed into an automatic savings system seems a long way from being solved.

If member engagement is to be maintained in the long term, then pensions must be seen as a trusted and whole working life route to an adequate retirement income. Good initial levels of engagement and contribution rates must therefore be supported by sound investment strategies and not undermined by constant and complex changes to the tax relief system. We will look at the tensions facing pension scheme investments in part 4 of our #PensionsTensions series.

Reflecting on These #PensionsTensions

The pandemic has shone an unflattering light on individual and societal financial health – those with inadequate resources have often struggled to a greater extent. Whilst issues around engagement, integration, adequacy and flexibility are not new, the challenge of finding solutions may be even harder in these economically constrained times.



#PressureMeasure: the higher the reading on the gauge the more pressing the need for action/reform

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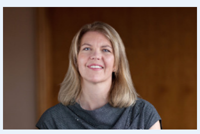

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